
City-wide Collection of Accounts Receivable

EXECUTIVE SUMMARY

In response to a City Council request, the Office of City Auditor performed a review of the City's collection of accounts receivable to determine (1) how rapidly the City collects its accounts receivable; (2) the extent to which the City uses late penalties (interest and/or late charges) to improve its collection of accounts receivable, (3) what systemic improvements the City needs to make in its collection processes; (4) whether the internal controls over the collection process provide appropriate protection against potential monetary losses; and (5) how well the Department of Finance provides guidance to the other departments in the management of accounts receivable.

Major Findings

The City's accounting and financial management systems generally do not provide management reports which supply key information needed to manage departmental collection efforts and to monitor their effectiveness. The amount of receivables over 90 days old is significant, but City departments only sporadically use interest and/or late fees as an incentive for timely payment. City departments could also improve their collection practices over delinquent accounts receivable and strengthen their internal controls to prevent the potential loss of City funds. Finally, the Department of Finance can provide more guidance to departments in the collection of accounts receivable. The findings below reflect the results of our review:

- The City's financial management system and departmental accounting systems generally do not provide key information periodically for monitoring collection efforts. This information includes collection rates and accounts receivable turnover ratios (showing the timeliness with which customers are paying bills) and aging schedules (providing an analysis of outstanding receivables by age). As a result we could not fully evaluate how successfully the City is collecting on its accounts receivable.
- Departments reported accounts receivable over 90 days totaled at least \$6 million, out of the total \$59.7 million in accounts receivable.
- Many City departments do not use interest and/or late fees as a tool to improve their collection of accounts receivable by penalizing those individuals or organizations who do not pay their accounts receivable timely. The City is not charging interest or late fees more extensively on delinquent accounts receivable because (1) many departments have not requested nor received the authority to charge interest, (2) some current departmental systems are technically incapable of charging late penalties, and the departments have not weighed the cost of changing their systems with the benefits, and (3) departments are uneasy about the appropriateness of penalizing late payments. We conservatively estimate that the City could potentially collect up to \$879,800 in interest payments if it charged interest on private individual and commercial accounts and utility accounts. The City's use of interest and/or late fees needs direction and clarification from the Mayor and City Council.

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- City departments can improve their collection processes to obtain more timely payment of accounts receivable. Many departments are not referring their delinquent accounts to the Departments of Law and Finance after 90 days for “last ditch” collection efforts. More specifically, departments which originate accounts receivable have not referred approximately 34 percent of the non-government accounts receivable overdue by more than 90 days to the Departments of Law or Finance. In addition, originating departments had not referred to the Departments of Law and Finance a majority of the accounts which departments wrote off as uncollectible at the end of 1994. Finally, we found that some departments need to improve their timeliness in sending reminder notices to debtors to comply with City policy.
 - The City’s collection systems for accounts receivable also need to eliminate weaknesses in financial controls which have the potential to expose the City to financial losses. Although we did not review all elements of internal controls at each department, some City departments are not following basic management and accounting practices for handling accounts receivable. In particular, we noted some City departments did not have appropriate segregation of duties nor compensating controls to minimize potentially costly mistakes and fraudulent activity. We also noted that the Departments of Finance and Law did not have appropriate segregation of duties until after we brought it to their attention. We also noted weaknesses in controls over (1) NSF checks, and (2) accounts receivable which departments refer to collection agencies, including contractual controls and the accounting for the collection agency’s commission.
 - The Department of Finance needs to improve the guidance that it provides to departments, especially written guidance and monitoring of departmental compliance with established policies and procedures.

Recommendations

We recommend that the Mayor and City Council provide City managers with policy direction to clarify when to charge interest and late fees to provide greater incentive for timely payment of accounts receivable. This policy direction should include whether and when to charge interest on governmental accounts, grants, low-income and working-poor accounts, and when to use non-monetary penalties in lieu of interest and late fees. For departments which do not have accounting systems capable of calculating late penalties automatically, we recommend that departments determine whether the benefits of changing their systems would outweigh the costs.

We recommend that the City improve its collection practices and its internal controls over accounts receivable. Specifically, we recommend that the Departments of Finance and Law and other City departments take the following actions:

- Departments should develop the necessary management reports to effectively monitor their collection patterns. The Executive should aggregate departmental accounts receivable information to monitor the City’s overall effectiveness in collecting its accounts receivable.

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- For accounts that departments refer to the Departments of Finance and Law which are over 90 days old, the Departments of Finance and Law should (1) monitor what they collect, (2) provide reports to departments necessary for departmental monitoring, and (3) take the necessary actions to correct their database. In addition, the Department of Finance should develop appropriate procedures to ensure that the collection agency is remitting all of the payments it receives from the delinquent accounts to the City.
 - The Department of Finance needs to provide more guidance to other City departments in the management of accounts receivable by reviewing, correcting, and re-issuing all written policies related to accounts receivable, and by monitoring departmental performance. The City needs to improve its system over NSF checks to ensure that it is effectively managing the outstanding NSF checks.
 - The Department of Finance and City Light should amend the contract with their collection agency to reflect actual practices. They should also reconsider their decision not to collect interest from their collection agency. In addition, the Department of Finance should stop using its checking account to pay the collection agency's commission and use the City's Accounts Payable Purchase Order system.
 - Some City departments should improve their collection systems by sending timely over-due notices, referring accounts to the Departments of Law and Finance, reconciling accounts with the Departments of Law and Finance, and properly segregating duties or establishing compensating controls.

The Executive departments have developed an action plan to address our recommendations (see Addendum E, pages 60-62).

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PURPOSE

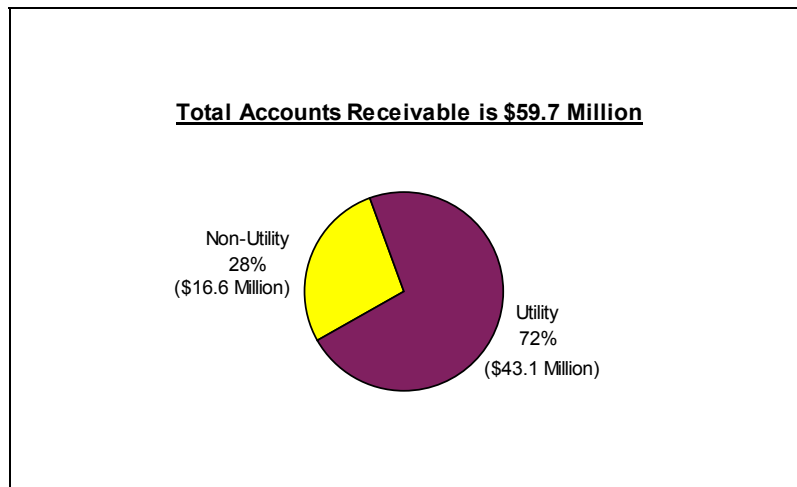
In response to a City Council request, the Office of City Auditor performed a review of the City's collection of accounts receivable to determine (1) how rapidly the City collects its accounts receivable; (2) the extent to which the City uses late penalties (interest and/or late charges) to improve its collection of accounts receivable, (3) what systemic improvements the City needs to make in its collection processes; (4) whether the internal controls over the collection process provide appropriate protection against potential monetary losses; and (5) how well the Department of Finance provides guidance to the other departments in the management of accounts receivable.

BACKGROUND

The City of Seattle generates accounts receivable and amounts due from customers in a variety of ways such as issuing permits, providing services (electricity, water, sewer, engineering), renting facilities (opera house, coliseum), receiving "bad" checks, and suffering damage to City property. In addition, the Municipal Court issues fines for various civil or criminal infractions and the Library issues fines for overdue materials or charges replacement fees for lost books.

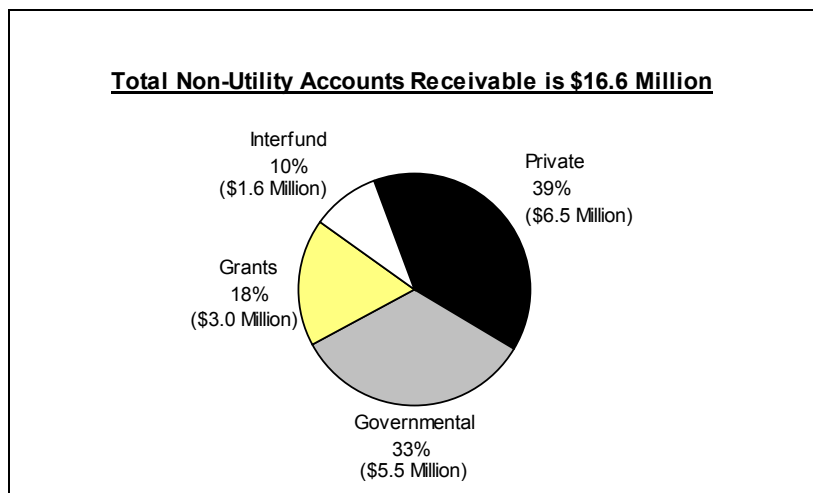
The City bills in excess of \$500 million, annually. As of August 31, 1994, the City had approximately \$59.7 million in accounts receivable, the majority (72 percent) was from residential and commercial utility accounts for electricity, water, sewer and garbage services. The remaining 28 percent was from non-utility accounts receivable, including private individual and business accounts, governmental, grants and City of Seattle interfund accounts. (See Figure 1.)

Figure 1: Percentage of Utility and Non-Utility Accounts Receivable as of August 31, 1994.



Of the non-utility accounts receivable, accounts from private individuals and businesses account for the largest group totaling 37 percent. Accounts for governmental entities makes up second largest group at 35 percent. See Figure 2 for specific breakouts by private, governmental, grants, and City of Seattle interfund accounts.

Figure 2: Percentage of Non Utility Accounts Receivable by Specific Type of Account as of August 31, 1994.



Timely collection of past-due accounts is important for efficient cash-flow management, for maximizing the likelihood of obtaining payment, and for fairness to those who pay on time. Timely collection actions are also critical

in minimizing the need to write off long past-due accounts as uncollectible. As a general rule, the longer an account is overdue, the less likely it will ever be collected. In some cases, the probability of receiving payment for a past-due account decreases each month because of increasing difficulty in finding the debtor and increasing likelihood of the debtor's bankruptcy.

Most City departments do their own billing, receive payments on current accounts, and perform the initial collecting of past-due accounts. The policies and procedures which City departments follow to collect accounts receivable constitutes the City's collection system. The effectiveness of this system can be evaluated in part by examining the amount of bad debt expenses, the rapidity of collections and other performance measures. A City must determine what level of collection effort is optimal from a cost-benefit point of view.

In 1992, the City's Finance Director issued new policies and procedures for collecting accounts receivable. These new policies and procedures resulted from the recommendations of a Collection Task Force¹ which had reviewed the City's collection practices. These policies and procedures apply to all accounts receivable except for (1) some governmental accounts; (2) utility accounts; (3) accounts the debtor is repaying on an agreed-upon schedule; and (4) the Library. Washington State law provides the Library Board with exclusive control of Library finances, including the authority to adopt its own rules and regulations.

¹ The Department of Law, in conjunction with the Treasurer's Office, established this task force. The task force included representatives from the Comptroller's Office, the Office of management and Budget (now the Office of Management and Planning), City Light, the Water Department and the Engineering Department. The City has subsequently merged the Treasurer's Office and the Comptroller's Office into the Department of Finance.

SCOPE AND METHODOLOGY

In this review, we examined collection systems for all the City's accounts receivable, both private and governmental, except for accounts between City departments, assessments which the Department of Finance collects on behalf of neighborhood business associations, and travel advances to City employees. In addition, we did not review collection systems for business and occupation taxes and for business and pet licenses because we plan to review them separately during 1995. We also did not include notes receivable in our review; these include the Office of Economic Development's small business loans and the Department of Housing and Human Service's single and multi-family loans. Finally, we did not include the Municipal Court's or the Library's fines since, according to generally accepted accounting principals, governments do not have to account for them in the same way as other accounts receivable.

We performed this work in two stages. First we used a questionnaire to obtain from all City departments basic data quantifying the extent and age of their accounts receivable and rudimentary descriptions of their collection processes. We then obtained additional data on billings and accounts receivable and examined documents providing more detailed descriptions of the collection systems in the Department of Finance, the Department of Law and several other departments, as well as in collection agencies under contract with the City. (See Addendum A for specific information on each department's collection process.)

During this review, we also interviewed accounts receivable personnel both in City departments and in various private-sector collection agencies. We attempted to reconcile the status of individual accounts receivable records of the originating departments to the Departments of Finance and Law, and their collection agency's records.

For details on how we estimated the amount of additional revenue the City could obtain from charging interest on delinquent accounts receivable, see Addendum B. We performed our work between July 1994 and January 1995 in accordance with generally accepted governmental auditing standards.

RESULTS OF OUR REVIEW

Management Reports Need to be Generated to Determine Effectiveness of City's Collection Efforts

The City's financial management system (SFMS²) and departments' accounting systems do not generally provide key information for managing departmental collection programs and monitoring their effectiveness. This key information includes collection rates, turnover rates, and aging schedules of outstanding receivable -- both overall and by type of customer (for example, private individual, commercial, governmental, grant and City of Seattle interfund).

Both the collection rates and the turnover rates depend on billings data, but currently most departmental accounting systems do not generate billings so that departmental staff can compare them to related accounts receivable. Collection rates and turnover ratios are vital for measuring the effectiveness of management in utilizing its collection resources. Without analyzing a periodic summary of when accounts are being paid, managers cannot know whether payment patterns are improving or deteriorating and whether more or different effort is needed. The collection rate is the proportion of new (monthly) billings which customers paid by the due date and in each 30 days period thereafter until the billings have been paid in full or written off as uncollectible. The accounts receivable turnover ratio is the ratio of billings to average accounts receivable. Because current accounting systems do not allow departmental staff to compare accounts receivable to related billings, these key rates are unavailable to departmental managers, even for overall monitoring of their collection efforts. In addition, most of the accounting systems for the City departments do not periodically identify the amount of new billings by type of customer. As a result, these key rates cannot easily be developed by type of customer.

These performance measures are not only vital in determining the current effectiveness of the accounts receivable processes but will also be important in determining how the impact of changes in collection practices (for example, charging additional interest and/or late fees) are impacting accounts receivable. In addition, departments should consider other ways to determine their

² The Accounts Receivable module to SFMS was not purchased by the City when SFMS was implemented due to cost overruns.

effectiveness such as comparing their collection rate with industry standards for specific functions.

Some departments do not generate periodic aging schedules of amounts past due to analyze the amount and proportion of their outstanding accounts receivable in each age category: 1-30 days, 31-60 days, 61-90 days, 91-120 days, over 120 days. This information, however, is necessary in determining whether their collection efforts are becoming more or less effective and in estimating the dollar amount of accounts receivable that will be uncollectible (in accounting terms, the allowance for bad debt). Some departmental accounting systems could not generate an aging schedule even upon our request, and we had to generate their aging schedule ourselves manually based on a list of their individual accounts receivable.

Some City units are generating reports for monitoring their collection process. For example, the Department of Engineering's Transportation and Engineering Services Division, the utilities' Combined Utility Billing System (the Water Department and Solid Waste Utility and Drainage and Wastewater Utility of the Engineering Department) and the Department of Construction and Land Use all generate reports which allow managers to monitor their collection experience and their collection efforts from month to month and which suggest to managers where to concentrate their collections efforts.

Because the individual departments do not have the necessary summary data for monitoring their collection practices, the Executive cannot aggregate departmental data to evaluate the effectiveness of the City's overall collection efforts. Likewise, because of the lack of key data, we were not able to determine how successfully the City is collecting its accounts receivable -- either globally or by type of customer.

Recommendations

1. We recommend that departments' generate appropriate management reports which will allow managers to analyze collection patterns. These reports should include aging schedules, collection rate reports, and accounts receivable turnover ratios both for overall accounts receivable and by type of accounts receivable

(for example, rental of facilities) and by the type of customer (for example, private individual, or governmental). In addition, departments should consider other ways to determine their effectiveness such as comparing their collection rate with industry standards for specific functions. The City should determine if there is an accounts receivable package that the City should purchase for all departments to use. Departments should be able to customize a system to some extent and it should also be able to generate the appropriate management reports at the department level and also at a City-wide level.

2. The Executive management should aggregate departmental accounts receivable information to evaluate the City's overall effectiveness in collecting its accounts receivable.

Accumulation of all recommendations can be found in Addendum D.

**Amount of Receivables
Over 90 Days is
Significant**

As of August 31, 1994, the actual amount of City-wide accounts receivable (utilities, private, governmental, grants, and City of Seattle interfund accounts) that were over 30 days from the billing date was about \$20.1 million. Table 1 provides a breakdown of this amount and age and reflects information which departments provided.³

Table 1: Aging of All Accounts Receivable Over 30 Days by Departments as of August 31, 1994.

<u>Department</u>	<u>31-60 Days</u>	<u>61-90 Days</u>	<u>91-120 Days</u>	<u>Over 120 Days</u>	<u>Total</u>
Administrative Services	\$162,733	\$163,025	\$12,695	\$254,852	\$593,305
City Light	4,428,927 ^a	1,338,056 ^a	849,578 ^{ab}	436,194	7,052,755
Construction and Land Use	137,036	741,980	362,806 ^b	405,017	1,646,839
Engineering Department ^c	614,730	178,963	134,902	1,154,663	2,083,258
Fire	2,944	1,398	21,594 ^b	(in 91-120 Days)	25,936
Housing & Human Services ^d	879,613	544,385	25,499	59,700	1,509,197
Parks and Recreation ^c	10,689	5,857	201	204,163	220,910
Personnel	0	0	0	2,119	2,119
Planning ^f	0	0	0	420,837	420,837
Police	52,506	714	29,395	25,357	107,972
Seattle Center	22,827	618	123,674 ^b	(in 91-120 Days)	147,119
Water ^g	<u>3,716,117</u>	<u>1,007,085</u>	<u>1,381,815^b</u>	<u>168,603</u>	<u>6,273,620</u>
Total	<u>\$10,028,122</u>	<u>\$3,982,081</u>	<u>\$2,942,159</u>	<u>\$3,131,505</u>	<u>\$20,083,867</u>

^a City Light bills accounts monthly (commercial and industrial accounts) and bimonthly (residential accounts) and ages its accounts receivable by billing periods (one period, two period, over 2 periods). For accounts billed bimonthly one period is between 60 and 120 days past the billing date, two periods is between 120 and 180 days, and over two periods is over 180 days. Therefore, some of the accounts in the 31-60 day column are actually 60-120 days past the billing date, some of the accounts in the 61-90 days column and 91-120 days column are between 120-180 days and over 180 days old, respectively. These figures include all customers who are on the average payment plan or who have made payment arrangements.

^b This figure includes some accounts that are over 120 days since departments' accounting systems group some accounts over 90 days together with those over 120 days old.

^c These figures include a total of \$295,209 in grants receivable: \$192,056 aged 31-60 days; \$0 aged 61-90 days; \$6,078 aged 91-120 days; and \$97,075 aged over 120 days.

^d These figures include a total of \$820,964 in grants receivable: \$772,355 aged 31-60 days; \$31,349 aged 61-90 days; \$17,260 aged 91-120 days.

^e These figures include a total of \$58,193 in grants receivable: \$9,169; aged 31-60 days; \$49,024 aged over 120 days.

^f All of the \$420,837 is from grants.

^g The Water Department, like City Light bills some of its customers bimonthly. (see footnote a.)

³ Because some departments do not prepare a monthly aging schedule, we or the department had to develop the aging of accounts from individual account records. As of April 25, 1995 we are continuing to receive corrections from some departments to the August 1994 aging schedules they submitted to us.

The City has at least \$6.0 million⁴ over 90 days and \$3.1 million in accounts over 120 days from its billing date, the City's allowance for doubtful accounts is \$3.3 million.

⁴ This figure is conservative since the utilities bill some accounts bimonthly. See Table 1, footnotes a and g, on page 8.

**City Using Late Penalties
(Interest and/or Late
Charges) Sporadically**

Many City departments do not apply penalties (interest and/or late charges) for late payments. Almost all businesses, and an increasing number of public entities use late penalties, such as interest and/or late fees, as a tool to improve their collection of accounts receivable and to penalize those individuals or organizations who do not pay their accounts receivable within a reasonable timeframe. The City of Seattle charges late penalties for some accounts. However, for a significant amount of accounts receivable, the City is not using late penalties. In general, departments do not charge late penalties because (1) some departments do not currently have the authority to charge interest and have not sought it; (2) current departmental systems are technically incapable of charging late penalties and departments have not conducted the cost/benefit analysis to determine whether the cost of changing their systems would be worthwhile; and (3) managers are uneasy about the appropriateness. If departments had the authority to charge interest on past due accounts systematically, not only would the accounts receivable collection improve, but by our estimate the City would increase its revenues by up to \$879,800. The City's management of late penalties could benefit from policy direction and clarification from the Mayor and City Council.

**Late Penalties (Interest
and/or Late Charges) Usually
A Good Idea**

Late penalties are usually a good idea because they encourage timely payment -- reducing risk of non-payment -- and because they increase revenue. In managing accounts receivable, the longer an account goes unpaid, the less likely it is to be paid. The City of Portland and those City of Seattle departments which charge late penalties report that it is an effective tool in improving collection of accounts receivable. Officials of the City of Portland, which in 1992 changed its municipal code to charge 12 percent interest after an account is 30 days overdue, told us that citizens pay their bills in a more timely fashion than before the change went into effect. Though they did not provide any data or statistics measuring their improvements it was their experience that the benefits outweighed the cost of implementation.

Within the City of Seattle, the Seattle Center, Parks and Recreation Department, City Light, Water Department, and the Solid Waste Division of the Engineering Department all report that charging interest for late payments effectively

enhances their collections of past due accounts. The Seattle Municipal Court uses significant late fees to encourage timely payment of fines. Even with governmental accounts, interest charges can effectively improve the timeliness of payments. The Water Department believes that its charging interest (based on the prime rate) has been effective in getting King-County water districts to pay their water bills within 60 days; since the Department initiated the policy of charging interest, it has not had to enforce the policy because governmental customers have made timely payments.

Late penalties also increase revenues. In 1994, four City departments were successful in collecting \$67,115⁵ in interest payments on delinquent accounts. However, as discussed below, this aspect of late penalties lead some to question its appropriateness. For purposes of estimating, if the City systematically charged a late penalty of 12 percent on individual and commercial delinquent accounts, we estimate that the City would increase its revenues by between \$772,800 and \$879,800 (beyond the interest already collected). City Light would experience the largest increase in revenues, over \$633,000. Other departments which would gain significant revenues include the Department of Construction and Land Use (over \$91,000), the Engineering Department (over \$25,000), and the Water Department (over \$20,000⁶). See addendum C for our estimate of additional potential interest that the departments may receive if they charged interest on private accounts receivable.

City's Use of Late Penalties (Interest and/or Late Charges)

We found a wide variety of practices regarding charging interest and/or late penalties. Three departments use a combination of interest and late charges on most of their past due accounts while four departments use either a late charge or assess interest on some of their past due accounts. Some departments use other penalties on most past due accounts to encourage payment, such as the threat of discontinuing utility services (for example, electric power,

⁵ City Light received \$63,203, Seattle Center received \$2,812, Parks and Recreation Department received \$1,100 and waived additional interest in exchange for a piece of property. Although the Solid Waste Utility charges interest on its transfer station accounts, its accounting system does not provide the amount of interest received.

⁶ The Water Department currently receives in excess of \$600,000 annually from late fees. It is also in the process of implementing a plan that would continue to charge late fees and use interest when the amount of interest exceeds the amount of the late fee. Water estimates that by implementing this plan it will increase its revenue from late fees and interest by approximately \$20,000 per year.

water, sewage), or placing a lien on real property. Table 2 shows that many departments do not always use interest, fees, or other penalties for their various receivables. Of the two departments which handle collections for other departments for accounts over 90 days past due, the Department of Finance imposes no interest charge, whereas the Department of Law seeks to impose interest charges, either through negotiation or through court judgments. When the Departments of Finance and Law send accounts to their collection agency, the collection agency does assess interest.

Table 2: Departments Who Impose Interest and Other Penalties

Department	Fines Charged	Interest Charged	Other Penalties	None
Administrative Services 1. Fees for training, other services 2. Rental contracts				X X
City Light 1. Utility and Merchandising Accounts 2. Sundry sales (include rental, phone services, damage claims, etc.)	X (some ^a)	X(some ^a)	Shut off Liens	X
Construction and Land Use 1. Various Building fees 2. Boiler and Elevator fees 3. General billings ^b 4. Design Commission fees ^b 5. Abatement fees 6. NSF checks	X X X		Property Liens	X
Engineering - Drainage and Wastewater 1. Special sewer connection charges 2. Corecut drillings 3. Rental (parking) contracts			Property Liens	X X
Engineering -- Engineering Services 1. Contracts for services				X
Engineering - Solid Waste 1. Transfer station credit accounts 2. NSF checks		X X		
Engineering--Transportation 1. Contracted services (permits) 2. Miscellaneous receivables				X X
Fire Department 1. Hazardous waste fees 2. Plan reviews 3. Acceptance tests 4. Fire inspections and misc. fees				X X X X

Department	Fines Charged	Interest Charged	Other Penalties	None
Department of Housing and Human Services 1. Misc. Services (mostly grants and interfund) ^c				X
Library 1. Overdue fines 2. Lost books fines				X X
Municipal Courts 1. Parking and Traffic Infractions	X	X		
Department of Neighborhoods 1. Rental agreements				X
Parks and Recreation 1. Fees for facility use 2. Rental agreements	X (some ^d)	X (some ^d)		X
Police 1. Services (contracted and non) 2. False alarms 3. Fees for police reports/evidence				X X X
Seattle Center 1. Rental agreements 2. On-site leases 3. Licensing agreements	X (most ^e)	X(some ^e) X X		
Water 1. CUBS (water, sewer, garbage) 2. Purveyor accounts ^g 3. Sundry sales	X ^f	X	Shut off Liens	X

^a City Light charges interest on some accounts with a history of payment delays. It also charges a \$22 shut off fee, \$44 after hour reconnection fee, and \$10 field call fee associated with past due accounts. In 1994, City Light received approximately \$175,000 in fees.

^b Although the Seattle Municipal Code specifically requires the Department of Construction and Land Use to impose a \$20 late fee after 60 days of non-payment, the Department has charged this fee on all accounts with the exception of general billings and design commission accounts.

^c We are not referring to services to low income customers nor are we referring to loans to customers.

^d In the past, Parks and Recreation Department did not assess late penalties, however, the Department is applying late penalties as new contracts are written.

^e Seattle Center charges a combination of late fees and interest on accounts past due depending on the terms of the contract.

^f The Water Department assesses a late fee on all CUBS accounts including government accounts.

^g Approximately 120 accounts for the sale of water to 26 King County cities and water districts such as City of Bellevue and Woodinville Water District.

In addition, two departments plan to charge interest or late fees. City Light has been charging interest on some large commercial electric accounts with a history of late payments and plans to start charging interest on some

accounts past due.⁷ City Light estimates they will receive approximately \$460,000 in interest revenue from this change. The Water Department charges late fees on all the Combined Utility Billing System (water, sewer, and garbage) accounts, including government accounts. The Water Department wants the flexibility to penalize those who owe the City delinquent utility accounts receivable by charging either interest or late fees, depending on the amount owed. Officials from the Water Department have drafted an ordinance to authorize this new policy, and they estimate that this change could potentially increase their revenues by approximately \$20,000, annually.

The City does impose significant penalties on NSF checks (that is, checks returned by banks because the writer of the check had insufficient funds in an account). When the bank returns a check to the City as NSF, the Department of Finance immediately imposes a handling fee of \$20.⁸ If the Department of Finance must refer the NSF check to its collection agency, and the debt is not paid within 15 days of referral, the collection agency adds an additional fee equal to the face value of the check or \$40, whichever is lower. The agency also charges interest at a rate of 12 percent per year.

**Some Departments Do Not
Currently Have the
Authority to Charge Interest**

Few departments, have sought the authority to charge interest. A City department may charge interest on most past due accounts receivable if there is a City ordinance or if it is written in the contract. Unless a specific state law states otherwise, RCW 19.52.020 allows departments to charge up to 12 percent interest on consumer transactions; state law does not limit the rate charged on business transactions. While not specifically addressed in state law, late fees may be assessed as long as they are not interpreted as usurious. In a few cases, departments use other penalties to encourage payment, such as the threat of discontinuing utility services (for example, electric power, water, and sewage), or placing a lien on real property.

⁷ City Light is planning to exclude accounts that are on payment plans; accounts identified for elderly, disabled, and low income; and account balances under a specific threshold.

⁸ City Light and the Water Department handle their own NSF checks. City Light imposes a \$16 handling fee, and the Water Department imposes a \$12 handling fee.

Current Systems May Be Technically Incapable of Charging Interest

Some departments have stated that their accounting systems cannot calculate interest charges; if they were to charge interest or late fees on past due accounts, they would have to calculate the interest and impose the fees manually. For instance, City Light calculates interest on some of its larger commercial accounts manually. City Light is currently enhancing its current billing system to automate charging interest and late fees and estimates it will complete the enhancement in September 1995. The accounting system for the Transportation Division of the Engineering Department will require reprogramming if the Division is to carry out its intention of charging interest. The Division is changing its contract language to accrue 12 percent interest on payments 30 days past due and it is planning to program the billing system to accommodate this change.

Uncertainty Concerning the Appropriateness of Late Penalties (Interest and/or Late Charges)

In discussing late penalties with departments, we found uneasiness about the appropriateness of using late penalties (interest and/or late charges) as a collection tool and whether departments have sought authority. Some officials expressed concern that late penalties would have a negative impact on low income and "working poor" who already have a hard time paying their bills. Others expressed concern that late penalties would make the City appear more business oriented than service oriented and might even make the City look usurious.

We found differing opinions among City Officials regarding the appropriateness of charging other governments interest. For example, one department does not charge interest on late payments from governmental customers. These officials told us it is an "unwritten policy" not to charge interest on receivables due from other governments; they said they expected that governments, as large bureaucracies, would be slow to pay. At least two City departments, do charge interest on government accounts. In 1994, the Parks and Recreation Department recovered \$1,100 in interest payments from a governmental agency for the use of the City's golf courses. The Water Department also charges interest on the sale of water to other cities and water districts. Since they have implemented this policy, the Water Department has not had to enforce it because its customers now pay within 60 days.

According to the Department of Law, governmental entities are not excluded from interest charges that result from contract provisions or from clearly stated policy.

Policy Direction and Clarification Needed

City managers need policy direction and clarification in using late penalties for accounts receivable. In particular, they need:

- the authority to charge interest;
- policy direction on when to charge interest;
- policy clarification on when to charge interest on government accounts, grants, and low income and “working poor” accounts, and when it is appropriate to use non-monetary penalties, such as denial of services; and
- policy clarification on whether the interest rate should be consistent throughout the City for the different types of receivables.

Recommendations

3. If it is the Mayor and City Council’s intent to provide greater incentive for timely payments, the City should provide departments with authority to charge interest or allow a flat late fee on all past-due accounts, including governmental accounts. We recommend that the Mayor and City Council provide City managers with policy direction and clarify when to charge late penalties for accounts receivable, including when to charge interest on governmental accounts, grants, and low income and “working poor” accounts, and when to use non-monetary penalties, such as the denial of services. The Departments of Law and Finance, working with City Departments, should determine what the interest rate(s) should be. The interest and/or late fees need to be large enough to encourage timely payments and to make the system equitable for those who pay on time but should not be so high that they may be considered usurious.
4. For departments that do not have accounting systems to calculate late penalties, we recommend that the department weigh the cost of changing their systems and determine whether the benefit of changing their systems or processes would be worth the cost. Some departments have reported that they have completed

their review and are currently implementing accounting systems with the capacity to assess late penalties (interest and/or late charges).

5. We recommend that departments generate the appropriate management reports, including aging schedules and schedules of interest charged and collected. They should also measure the benefits of charging interest over time, in the form of more timely payment experience.

Accumulation of all recommendations can be found in Addendum D.

**Collection Practices Over
Accounts Receivable Past
90 Days Need
Improvement**

City departments have considerable room for improving their collection processes to obtain more timely payment of accounts receivable. City departments and the Department of Finance generally do not have systems to provide useful management reports to monitor collection of delinquent accounts effectively. In addition, many departments which originate accounts receivable are not referring accounts for the “last ditch” collection efforts by the Departments of Law and Finance after 90 days. As of August 31, 1994, we conservatively estimated that \$461,000, or 34 percent, of the non-government accounts receivable overdue by more than 90 days had not gone to the Departments of Law or Finance for collection and that a majority of the accounts which departments wrote off as uncollectible at the end of 1994 had never been sent to the Departments of Law and Finance. In addition, we also found that some departments need to improve their timeliness in sending reminder notices to debtors to comply with City policy.

**Some Departments’ Accounts
Receivable Systems Do Not
Provide Information to
Effectively Monitor the
Collection of Delinquent
Accounts**

Some departments’ accounts receivable systems do not provide managers with useful information to monitor the delinquent accounts they send to the Departments of Finance and Law. Frequently departments did not provide a list of accounts which were over a certain age or which they had sent to the Departments of Finance or Law. For some City departments and divisions, we or the departmental staff had to develop the summary manually from individual account records. In addition, most departments do not know the number nor the value of the accounts they have referred to the Departments of Law or Finance for collection. In comparing the total number and amount of accounts the departments told us they had referred with the records of the Departments of Law and Finance, we found a difference of nearly 600 accounts (totaling more than \$500,000) which departments did not show as being referred. In other cases, we found sizable accounts missing from the records of the Department of Law which departments believed they had referred. One department reported that it is starting to develop systems to monitor the amount of accounts receivable outstanding each month.

In addition, the Department of Finance does not produce

status reports for the departments so that the departments may update their records and better monitor their accounts. The report the Department of Finance presently generates for its own management would not provide sufficient information for this purpose. This report lists only the debtor's name, the originating department, and the account balance. The Department of Finance's private sector collection agency provides the Department of Finance with a status report which shows the debtor's name, amount and date referred, the balance owing, and the status of the account (for example, whether the debt has been canceled, paid in full, partially paid, or is in legal dispute).⁹ Departments need periodic status reports from the Department of Finance to monitor their accounts referred effectively. Seven departments specifically stated that they would like to receive periodic reports that accurately reflect the status of their accounts. Department of Finance officials stated that they are in the process of developing four monitoring reports to provide to departments and plan to pilot these reports at the end of the second quarter of 1995.

The Department of Finance's database also does not produce consistently reliable information. Although the database showed 373 accounts coded paid in full, we found that 32 (almost 9 percent) of these accounts still showed a balance (totaling over \$7,000) other than zero. A further review of all but 4 of these 32 accounts showed that the account had indeed been paid in full and should show a zero balance.

Departments Inconsistently Refer Delinquent Accounts to the Department of Finance and Law

Departments are not consistently referring their delinquent accounts to the Departments of Law and Finance. The City's miscellaneous receivables policy¹⁰ requires that departments send their delinquent accounts receivable to the Department of Law (amounts greater than \$2,500), or to the Department of Finance 90 days after the original due date. Failure to transmit accounts receivable at this point for the more serious types of collection efforts which the

⁹ City policy requires the Law Department to provide departments with a quarterly report on accounts referred to it for collection. Due to problems with its internal computer systems, the Law Department did not provide this report for parts of 1993 and 1994, but has recently resumed providing it.

¹⁰ This policy specifically excludes receivables that are covered by specific City ordinance, including the utility accounts (from City Light, the Water Department, and Engineering Department's Drainage and Waste Water Division and Solid Waste Division); contracts with governmental agencies, and debtors who have made payment arrangements and are making payments.

Departments of Law and Finance can provide (for example, legal actions and use of a collection agency) may delay payment or reduce its likelihood of payment. Many of the City's delinquent accounts never reach the Departments of Law and Finance while others reach these departments in a less than timely manner:

- Two departments do not send their NSF checks at all to the Department of Finance.
- One department does not send its smaller delinquent accounts to the Department of Finance, and although it does send some large accounts to the Department of Law, we found at least 19 delinquent rental-property accounts, totaling more than \$165,000, which have not been referred but are awaiting collections action. We could not determine the total dollar amount of accounts that the department should have referred.
- One division in another department bills insurance companies and attorneys approximately \$136,000 annually for materials they request (for example, copies of reports and photographs). As of August 31, 1994, it had not referred 20 of these accounts, worth \$5,554, which were all over 120 days past due. The Division did not refer these accounts for the following reasons: the divisions priority is to get the billings out and perform additional functions as staff is available; the division did not perceive them to be receivables; and the Division employee was not aware of the City's collection procedures. Also, a different division within the same department did not refer a \$20,000 delinquent contract receivable until after the statute of limitations ran out. The \$20,000 was subsequently written off in 1994.
- Another department refers accounts to the Department of Law or Finance on an irregular basis with the average account sent after 180 days delinquent. An official from the department stated that it does not send the accounts sooner since it is a time consuming process to copy and prepare the paper work to send the accounts to the Department of Finance. As of August 31, 1994, the department had about \$21,000 in accounts over 120 days old; however, the department had referred only about \$10,000 in accounts to the Department of Finance for collection. This department

has recently added accounting staff resources and expects to send accounts to the Departments of Law and Finance more rapidly.

- Although one department is now working to improve its collection process, it has inconsistently sent its larger delinquent accounts to the Department of Law and has only sent NSF checks to the Department of Finance. As of August 31, 1994, the Department had more than \$400,000 in accounts over 120 days old, of which it had sent only NSF checks to the Department of Finance; these NSF checks totaled about \$3,800 and represented only about 1 percent of the accounts receivable over 120 days old. Departmental officials agreed that the Department has not effectively performed its collection activities for some of their programs in the past. The Department is now developing systems for referring past due accounts receivable to the Departments of Finance or Law as a part of its new billing system.
- Although the City has not set a threshold amount, two departments stated that they do not refer any accounts under a set threshold to the Department of Finance. One department does not send delinquent accounts under \$100 to the Department of Finance. These small accounts include \$3-4 NSF checks the department received for parking fees. The department believes it is not cost effective to pursue these accounts. A division of another department sends only accounts over \$50.

In all, we conservatively estimated as of August 31, 1994, that \$461,000 or 34 percent of the non-government accounts receivable overdue by more than 90 days had not gone to the Departments of Law or Finance for collection. We found that a majority of the accounts which departments wrote off as uncollectible at the end of 1994 had never gone to the Departments of Law or Finance for collection; some of these accounts originated as recently as November 1993. We also found that some departments were not reviewing their accounts receivable to determine the appropriate amount for their allowance for uncollectible accounts receivable accounts.

**Departments Not Sending
Overdue Notices According
to City Wide Policy**

Although the City's accounts receivable policy requires departments to send reminder letters to debtors when their accounts are 30 days past due and again when the accounts are 60 days past due, many departments have established their own schedule for sending overdue notices. Some departments send notices sooner than 30 and 60 days while other departments are slower to send notices or contact debtors.

Recommendations

6. The Departments of Finance and Law should periodically provide detailed management reports on delinquent accounts (over 90 days) to help managers effectively monitor the success of their collection efforts. This report, at a minimum, should include the date referred, the debtor's name, the current balance due, and the status of the account (for example, notice sent to debtor, attorney review, law suit filed, sent to collection agency). In addition, the Departments of Finance and Law should provide departments with a copy of this report. The Department of Law has recently resumed providing departments with quarterly reports on accounts referred to it for collection. Department of Finance officials stated that they are in the process of developing four monitoring reports to provide to departments, and plan to pilot these reports at the end of the second quarter of 1995.
7. The Departments of Finance and Law should review their process for recording and monitoring collection transactions to ensure the future accuracy of the database. The Departments of Finance and Law should take the appropriate steps to correct their database as long as the costs of corrective actions do not outweigh the benefits.
8. The Executive should determine whether it would be more cost effective for the City to establish a minimum threshold amount for pursuing collection activities, and the City should present its findings to the Mayor and City Council of what the minimum threshold amount should be.

9. We also recommend that some City Departments, as shown in Addendum D, should improve their collection process. These improvements would include sending overdue notices, referring accounts to the Departments of Law and Finance, monitoring collection patterns, reconciling accounts with the Departments of Law and Finance, and determining an appropriate allowance for uncollectible accounts receivable. These specific recommendations pertain to areas within individual departments/divisions but are not a complete list of recommendations for all departments. Specifically, we recommend the following:

- As stated in the City's accounts receivable policies and procedures, departments should at minimum send overdue notices at 30 and 60 days. (We recognize that the accounts receivable policies are guidelines and that in some cases, because of the differences in departments' receivables, the accounts receivable policies may not apply.)
- Unless the department has received a specific waiver from the Department of Finance, the department should refer its delinquent accounts to the Department of Law (amounts greater than \$2,500) and the Department of Finance no later than 90 days after the original due date.
- Departments should reconcile the accounts that they refer to the Departments of Finance and Law on a periodic basis to improve the City's tracking and monitoring of delinquent accounts receivable and to ensure that the Departments of Finance and Law have received the accounts and are pursuing more serious collection efforts (such as legal action and the use of their collection agency.)

Accumulation of all recommendations can be found in Addendum D.

**City Should Strengthen
Internal Controls to
Prevent Potential Losses**

The City's collection systems for accounts receivable also need strengthening to eliminate weaknesses in financial controls which have the potential to expose the City to financial losses. Although we did not review all elements of internal controls at each department, we noted that City departments did not have appropriate segregation of duties nor compensating controls, and that the Departments of Finance and Law also did not have appropriate controls until after we brought it to their attention. We also noted weaknesses in controls over (1) accounts which departments refer to collection agencies, including contractual controls and the accounting of commissions paid to the collection agency, and (2) NSF checks.

**Importance of Segregation of
Key Duties or Compensating
Controls**

The Departments of Finance and Law did not appropriately segregate duties associated with collecting delinquent accounts until we brought this issue to their attention. Standard management and accounting practices require that different individuals handle payments and enter data about those payments into the accounting system. If the same person handles both functions, a situation exists in which an individual can make mistakes or misappropriate funds without detection. Even if mistakes or misappropriations occur and are detected, without proper segregation of duties or compensating controls, it is usually impossible to pinpoint the person with whom the problem originated. We recognize that departments may have inappropriate staffing to segregate duties optimally between receivables accounting and payment processing and may have to implement alternative controls. Such controls may include a cash receipts log which a person not involved in payment and receivables processing prepares and spot checks against entries to the accounts receivable sub-system.

The Collection Unit of the Department of Finance had only one person handling collections, and thus, the same person received payments, recorded the receipt of payment in the records of the delinquent accounts, prepared the cash transaction voucher, and brought the voucher and payments to the cashier. Similarly, one of the three persons who work part-time in collecting delinquent accounts in the Department of Law received payment, recorded receipt, prepared the voucher, and brought the payments and voucher to the cashier in the Department of Finance.

Neither department had supervisory review nor approval of the cash transaction vouchers to ensure they included all receipts. Both departments have since followed our recommendations and have appropriately segregated duties.

In addition, in reviewing the internal controls in place over the collecting of accounts receivable at ten City units, we found four units (the Department of Neighborhood, the Police Department's Fiscal Division, the Water Department, and the Engineering Department) had proper segregation of duties. However, we found the remaining six units (the Parks and Recreation Department, the Fire Department, Seattle Center, the Department of Administrative Services, the Department of Construction and Land Use--for its vacant buildings, abatement, boiler and elevator fees and NSF check fees-- and the Police Department's Records and Evidence Unit) did not have appropriate separation of duties nor compensating controls. In these units, one person was responsible for both receiving and processing payments and for posting payments to debtors' accounts without having compensating controls in place. Since our initial review, several departments have reported that they have properly segregated duties or that they put in place other compensating controls. We are also working with one department, at its request, to appropriately segregate duties. We did not review in detail the internal controls over collections in City agencies other than those we discussed in this paragraph.

**Controls Over Accounts
Referred to the Collection
Agency Need Strengthening**

The Department of Finance needs to strengthen its controls over the delinquent accounts which it sends to their collection agency. Without appropriate controls, the collection agency can mistakenly or purposely not report to the City some of the money it collects and the City would not detect it.

The Department of Finance does not maintain a log or database information showing what delinquent accounts it has sent to its collection agency. Although the department has developed a database to track and monitor individual accounts, and the database has a field for recording the date an account is referred to the collection agency, collection personnel are not using this field. As a result, the department has no means of checking the accuracy of the

letter which the collection agency sends each month acknowledging receipt of specific accounts. Without this check, the collection agency could fail to acknowledge receipt of an account, then obtain payment without reporting the payment to the department. The department also does not use the acknowledgment letters to ensure that it eventually receives payment for each account or return of the account as uncollectible. Thus the Department of Finance does not ensure that the City is receiving all the funds collected by the collection agency. Since May 1993, the Department of Finance has sent about \$332,000 in delinquent accounts to its collection agency, with reported collections of \$67,000.¹¹ Recently the Department of Finance implemented a new procedure which uses a manual log to record all accounts sent to the collection agency and verifies that the acknowledgment letters from the collection agency agree with the manual log. According to Department of Finance officials, it is also in the process of enhancing its automated system to eliminate this problem.

The Department of Law has, until recently, also directly referred some accounts to the collection agency, and like the Department of Finance did not appropriately track these accounts after referral. The risk of loss on these accounts was relatively small because the only accounts referred in this manner were those on which the Department of Law had given up all hope of collecting. They were referred primarily so that the collection agency could report the debtor to credit bureaus. However, the Department of Law now refers such accounts back to the originating departments or the Department of Finance for their referral to the collection agency and subsequent tracking.

In addition, the Department of Law was referring accounts to the collection agency even though it did not have a contract with the collection agency. The manager of the Department of Law's Collection Unit stated that it would not be cost effective for the Department of Law to go through the City's contracting process to obtain its own

¹¹ The collection rate of approximately 20 percent is above the 1992 industry-wide collection rate of 12.8 on government accounts. (Since the City does not have a management reporting and monitoring system, we cannot determine whether this is good or bad. It could mean the City should be doing more to collect the account within the first 120 days before it sends the accounts to the collection agency.)

contract.¹² She also stated it would no longer refer these accounts directly to the collection agency. As the Department of Law changes their procedures, they should discuss these changes with the Department of Finance and other City departments, and incorporate these changes in the City's accounts receivable collection policies and procedures.

Contract with Collection Agency

The Department of Finance and City Light's contract with the collection agency does not reflect actual practices. In 1988, City Light first contracted with the collection agency. Although the contract required the collection agency to remit the interest to the City, previous City Light management decided not to receive the interest. City Light officials notified the collection agency in 1988 with a letter that it did not want a share of the interest collected and requested that the collection agency charge interest only from the date of assignment and keep the interest. Although City Light's contract had been modified or extended on 10 different occasions, City Light had not removed the requirement to remit interest from their contract. City Light officials said this requirement was an oversight and should have been removed from the contract. In July 1994, City Light contracted with a different collection agency and included language in their contract that the collection agency was not to charge nor collect interest. City Light anticipates changing their systems so that they can charge and collect interest.

In 1992, the Department of Finance "piggy backed" onto City Light's original contract with the collection agency. The Department of Finance's contract, thus, requires the collection agency to remit the interest it collects to the City. According to Department of Finance officials, the interest requirement should not be in the contract.

The Department of Finance and City Light should reconsider their decision of not collecting and/or sharing in the interest that the collection agency receives. The Department of Finance agrees that the City should receive interest and will require its new collection agency to remit interest along with collection payments to the Department of Finances. The request-for-proposal for this new

¹² The Department of Finance is currently going through the City's contracting process and is soliciting response to a request-for-proposal for providing collection services.

collection agency includes this requirement. As stated earlier, City Light anticipates changing their systems so that they can charge and collect interest.

**Improper System for Paying
Collection Agency
Commissions**

The Department of Finance is paying the collection agency's fee out of a separate checking account rather than using the City's warrant system. City policy requires paying these fees with a warrant through the City's Accounts Payable Purchase Order system. The Audit Committee certifies and approves all payments made through the Accounts Payable Purchase Order system. We did not find any evidence showing that these fees were certified and approved before the Department of Finance paid them through the checking account. Since 1993, the Department of Finance paid the collection agency approximately \$31,000 in collection fees. The Department of Finance will change its process for paying the collection agency and will use the City's Accounts Payable system by July 1, 1995, to adhere to City policy.

**Controls Over NSF Checks
Need Improvement**

The City's process for collecting on and controlling NSF checks needs to be reworked. The current process is confusing, cumbersome and misunderstood by many departments. Currently, the Department of Finance maintains a City-wide list of all outstanding NSF checks to monitor and track their repayment. This list, showing outstanding checks owed to the various City departments, should agree with the City's accounting system. Departments are expected to reconcile this list to the City's financial management system periodically and report discrepancies to the Department of Finance, which then updates the list. However, we found that the City's accounting systems show \$131,000 more in outstanding NSF checks than the Department of Finance's control list. In response to our concerns, the Department of Finance is starting a departmental project looking at its cash management system, including its recording of NSF checks.

Recommendations

10. City departments should ensure that they have proper segregation of duties so the same person who receives payments does not enter the payments into the accounting or subsidiary accounting systems. As a result of our audit, the Departments of Finance and Law and several other departments have reported that they have properly segregated duties or put in place other compensating controls.

We recognize that departments may have inappropriate staffing to segregate duties optimally between receivables and payment processing and may have to implement alternative controls. Such controls may include having one person logging in all checks before the checks are given to another person who prepares and processes the accounting entries. The deposit slip is then given back to the first person who compares the deposited amount to the log.

11. The Departments of Finance should develop appropriate controls over the accounts referred to the collection agency. Specifically, these controls should include a process, whereby the Department of Finance periodically reconciles the accounts it refers to the collection agency to ensure that the collection agency received the accounts and is actively pursuing collection.
12. The Department of Finance and City Light should follow the contracting rules and amend their contract with the collection agency to reflect actual practices. We also recommend that the City (both the Department of Finance and City Light) reconsider the decision not to collect interest from the collection agencies. The Department of Finance agrees that the City should receive interest and will require its new collection agency to remit interest along with payment collection to the Department of Finance as stated in the requirements of their recent request-for-proposal. In addition, the Department of Finance should stop using its checking account to pay the collection agency's commission and use the City's Accounts Payable Purchase Order system. Department of Finance Officials stated that they plan to make this change by July 1, 1995.

13. Finally, the City needs to improve its system of controls

over NSF checks to ensure that it is effectively managing the outstanding NSF checks. The Department of Finance is starting a departmental project looking at its cash management system, including its recording of NSF checks. During this review, the City should consider streamlining this process.

Accumulation of all recommendations can be found in Addendum D.

**Department of Finance
Can Provide More
Guidance**

The Seattle Municipal Code states that the Department of Finance is to exercise general supervision over the financial affairs of the City. Among the areas that the Municipal Code¹³ states that are especially applicable to the Department of Finance include establishing accounting policies and procedures for City departments and monitoring departmental compliance. We found that the Department of Finance can strengthen the way it performs these functions. In addition, the Municipal Code states that the Department of Finance should provide technical assistance, training and support in performing financial functions to other City departments. We found the Department of Finance did perform this activity.

**More Written Policy and
Procedural Guidance Needed**

The written guidance which the Department of Finance has provided to the other departments needs review to ensure it is consistent, complete, correct and up-to-date. We examined the department's policies and procedures for collecting accounts receivable, writing off uncollectible accounts and handling NSF checks. We found that policies for write-offs and NSF checks dates from the late 1980s and needs updating to reflect current practices. We found that the City's accounts receivable policies and procedures are missing some key procedures and information. The following items were not addressed in the City's accounts receivable collection policies:

- a description of what additional collection activities the Department of Finance performs when it receives referrals of accounts over 90 days delinquent;
- guidance as to the departments' responsibility for tracking and monitoring delinquent accounts referred to the Departments of Law or Finance; and
- guidance for handling accounts under \$2,500 which enter bankruptcy proceedings, including filing and tracking bankruptcy documents and writing off the account.

The Department of Finance should also revise its policy to allow departments some flexibility in referring cases to the Department of Law under the \$2,500 threshold. For

¹³ Seattle Municipal Code 3.38.010

example, delinquent construction contractor accounts receivable should go to the Department of Law, regardless of size; all such contractors are bonded, and the Department of Law can generally sue to recover against the bond. In another example, the Department of Construction and Land Use often asks the Department of Law to sue in Municipal Court on Notices of Violation. If the Municipal Court awards a judgment in favor of the City, the Department of Law certifies the judgment to superior court regardless of whether the amount is less than \$2,500; this creates an automatic lien against the property. This practice makes sense and should not be considered in conflict with policy.

In addition, the City's accounting policies should provide guidance for writing off uncollectible utility accounts. The table of contents to the City's accounting policies refers to a forthcoming utility write-off policy, which the Department has not issued. The utilities wrote off as bad debt from the financial statements nearly \$2 million¹⁴ in uncollectible debt in 1994, but they continue to work on collecting these accounts.

The Department of Finance has recognized that its current written guidance needs improvement. It is presently establishing work groups to review all the City's financial policies and procedures, and it plans to update the receivables guidance along with other financial policies and procedures during 1995.

We realize that many departments differ, and some will need different procedures. Departments should discuss possible exceptions to these policy guidelines with the Department of Finance.

**Department of Finance's
Monitoring Role Needs
Clarification/Strengthening**

Although monitoring departmental compliance with the City's collection policies and procedures is first of all the responsibility of individual departments, an additional responsibility for such monitoring rests with the Department of Finance. In assigning the Department of Finance general supervision over the financial affairs of the City, the Seattle Municipal Code¹⁵ states that the

¹⁴In 1994, City Light wrote off as bad debt from the financial statements \$1,976,087, the Water Department wrote off \$12,774, the Drainage and Wastewater Utility wrote off \$7,209, and the Solid Waste Utility wrote off \$1,331.

¹⁵ Seattle Municipal Code 3.38.010

Department of Finance is to exercise the following functions:

- establish accounting policies and procedures for City departments; and monitor departmental compliance therewith; and
- provide technical assistance, training, and support to other City departments in performing financial functions.

In our opinion, monitoring includes obtaining from departments appropriate financial management reports (for example, collection rates and aging schedules), analyzing these reports, notifying departments when their reports show problems (for example, deteriorating payment patterns), following up on outcomes of corrective actions, and providing departments with training and advice. The Department of Finance, however, does not perform these monitoring activities.

The Department of Finance provides one-on-one training to departmental collections staff as requested and is available to assist departments on an as needed basis.

Recommendations

14. The Department of Finance should review and re-issue all written policies related to accounts receivable to ensure that they are consistent, clear, and complete. These policies include the City's miscellaneous revenue policy and policies for write-off of bad debt, allowances for doubtful accounts, and NSF checks.
15. The Executive should determine if it is the Department of Finance's or another department's role to monitor departments compliance with the City's policies for collection of accounts receivable. Executive management should establish a system that provides for reasonable monitoring of departments compliance with established policies and procedures.

Accumulation of all recommendations can be found in Addendum D.

Addenda

Addendum A

Description of Departments' Accounts Receivable Collection Processes

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ADDENDUM A

ADDENDUM A

ADDENDUM A

ADDENDUM A

Methodology for Calculating Potential Interest

In conservatively estimating the amount of additional revenue the City could obtain from charging interest on non-governmental accounts we proceeded as follows:

- obtained from most City departments an aging²³ of their accounts receivable as of August 31, 1994;
- removed accounts with other City departments and with other governments;
- removed accounts in the first and last aging brackets (0-30 days and more than 120 days);²⁴
- assumed, for ease of calculation, that all accounts were appropriately aged as past due after 30 days. We realize that some accounts are not considered past due until 60 days old but are included in the 31 day aging bracket since the aging schedules are based on the number of days after the billing date. Although this will overstate the revenue, we have compensated conservatively by not calculating interest for accounts over 90 days old where departments could not separate between 91-120 days old and over 120 days old.
- used the lower of the estimates we obtained from two collection agencies for the proportion of receivables in each aging bracket the City would collect during the following month on commercial accounts and on individual consumer accounts;
- based on departments' estimates for individual and commercial accounts, we used a 20 percent collection rate for commercial accounts and a 65 percent collection rate for individual consumer. For departments that could not break out the commercial accounts versus the individual consumer accounts, we assumed first that all accounts receivable were individual consumer accounts (with a higher repayment rate, 65 percent), then that all accounts receivable were commercial accounts (with a lower repayment rate, 20 percent);
- assumed, for ease of calculation, that all payments would occur on the 15th of the following month, thus we assessed 45 days of interest on accounts 31-60 days old and 75 days and 105 days of interest on accounts in the 61-90 day and 91-120 day aging brackets, respectively;
- applied a 12 percent interest rate to accounts in the three aging brackets between 31 and 120 days with the exception of the accounts in the Combined Utility Billing System to which we applied an 8 percent interest rate;²⁵ and
- deleted interest which City departments actually received in 1994.

²³ An aging provides a classification and summary of accounts receivable by age bracket: 0-30 days, 31-60 days, 61-90 days, 91-120 days, and over 120 days.

²⁴ For most accounts in the first aging bracket, the City will receive payment before the account becomes delinquent. For most accounts in the last aging bracket, the City is unlikely to collect any payment. For departments who could only provide us with accounts over 90 days and could not separate their accounts between 91-120 days and over 120 days, we also excluded these figures from our calculations. We removed these accounts in an attempt to calculate potential interest conservatively.

²⁵ RCW 36.6.200 only allows an 8 percent interest rate to be charged on drainage and wastewater fees.

Methodology for Calculating Potential Interest

We realize that by charging interest, over time the amount of delinquent accounts will decrease; however, we could not predict what impact this change would have on the accounts receivable, and, thus, we did not adjust our figures for this change.

Estimated Potential Interest On Non-Governmental Accounts Receivable

Estimated Potential Interest On Non-Governmental Accounts Receivable

Department of Administrative Services						
Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
Department of Administrative Services	34,104	22,821	14,839	9,923	63,654	145,341
Assuming 12% interest		338	366	343		1,047
Approximate Collection Rate		65%	65%	65%		
Total		220	238	223		681
Total Annual Interest				681	* 12 months =	8,172
Reduced for Interest Collected						0
Total Additional Estimated Interest						8,172
Approximate Collection Rate		20%	20%	20%		
Total		68	73	69		210
Total Annual Interest				210	* 12 months =	2,520
Reduced for Interest Collected						0
Total Additional Estimated Interest						2,520

Department of Construction and Land Use						
Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
DCLU's Commercial Accounts						
DCLU-Platinum (89% Commercial)	2,634	4,033	312,534	170,996	(in 91-120)	490,197
DCLU-Boiler & Elev.	69,820	35,241	4,811	4,303	26,634	140,809
DCLU-NSF Checks	398	110	493	0	3,241	4,242
DCLU-General Billings	158,554	1,515	110,494	1,215	71,518	343,296
Total DCLU's A/Rs	231,406	40,899	428,332	176,514	101,393	978,544
Less amount over 120 days in 91-120 days ¹				(170,996)		
	231,406	40,899	428,332	5,518		
Assuming 12% interest		605	10,562	190		11,357
Approximate Collection Rate		65%	65%	65%		
Total		393	6,865	124		7,382
Total Annual Interest				7,382	* 12 months =	88,584
Reduced for Interest Collected						0
Total Additional Estimated Interest						88,584
DCLU's Individual Accounts						
DCLU-Abatement	0	0	0	2,237	223,717	225,954
DCLU-Platinum (11%)	325	499	38,628	21,134	(in 91-120)	60,586
Total DCLU's A/Rs	325	499	38,628	23,371	223,717	286,540
Less amount over 120 days in 91-120 days ¹				(21,134)		
	325	499	38,628	2,237		
Assuming 12% interest		7	952	77		1,036
Approximate Collection Rate		20%	20%	20%		
Total		1	190	15		206
Total Annual Interest				206	* 12 months =	2,472
Reduced for Interest Collected						0
Total Additional Estimated Interest						2,472

DCLU's	
Commercial Accounts	88,584
Individual Accounts	2,472
Total Additional Estimated Interest	91,056

¹ For most accounts in the first aging bracket, the City will receive payment before the account becomes delinquent. For most accounts in the last aging bracket, the City is unlikely to collect any payment. For departments who could only provide us with accounts over 90 days and could not separate their accounts between 91-120 days and over

Estimated Potential Interest On Non-Governmental Accounts Receivable

120 days, we also excluded these figures from our calculations. We removed these accounts in an attempt to calculate potential interest conservatively.

City Light						
Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
City Light-Active Accounts (incl. gov)	15,357,988	3,657,884	811,299	512,422	(in 91-120)	20,339,593
City Light-Final Accounts (incl. gov)	170,927	399,033	459,679	314,510	(in 91-120)	1,344,149
Total Electric Accounts	15,528,915	4,056,917	1,270,978	826,932		21,683,742
Individual Accounts (92.9%)	14,426,362	3,768,876	1,180,739	768,220		20,144,197
Assuming 12% interest		55,759	29,114			84,873
Approximate Collection Rate (Individuals)		65%	65%			
Total		36,243	18,924			55,167
Total Annual Interest				55,167	* 12 months =	662,004
Commercial Accounts (7.1%)	1,102,553	288,041	90,239	58,712	(in 91-120)	1,539,546
Assuming 12% interest		4,261	2,225			6,486
Approximate Collection Rate		20%	20%			
Total		852	445			1,297
Total Commercial Estimated Annual Interest				1,297	* 12 months =	15,564

Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
City Light EAS	188,851					188,851
City Light SS1-Miscellaneous	1,621,968	368,255	61,167	22,619	356,241	2,430,250
City Light SS1B-Installation Charges	593,122					593,122
City Light SS2-Property Damage	59,695	2,561	5,884	0	78,900	147,040
City Light SS3-Underground	217,284	1,194	27	27	1,053	219,585
City Light SS4-Real Estate	174,819					174,819
City Light SS5-Power Sales	302,654					302,654
City Light SS7-Weatherization	3,821,917					3,821,917
	6,980,310	372,010	67,078	22,646	436,194	7,878,238
Assuming 12% interest		5,504	1,654	782		7,940
Approximate Collection Rate		65%	65%	65%		
Total		3,578	1,075	508		5,161
Total Estimated Annual Interest				5,161	* 12 months =	61,932
Approximate Collection Rate		20%	20%	20%		
Total		1,101	331	156		1,588
Total Estimated Annual Interest				1,588	* 12 months =	19,056

City Light Summary		
	High Estimate	Low Estimate
Individual	662,004	662,004
Commercial Accounts	15,564	15,564
Sundry Sales	61,932	19,056
Total Estimated Annual Interest	739,500	696,624
Reduced for Interest Collected	(63,203)	(63,203)
Total Additional Estimated Interest	676,297	633,421

Estimated Potential Interest On Non-Governmental Accounts Receivable

Department of Engineering						
Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
Eng-Transportation	339,548	209,233	79,165	86,330	341,657	1,055,933
Eng-DWU	(in 61-90)	(in 61-90)	9,353	31,359	8,213	48,925
Eng-SWU-Hauling Trans St	148,753	59,376	12,097	3,832	95,837	319,895
Total Engineering A/R	488,301	268,609	100,615	121,521	445,707	1,424,753
Assuming 12% interest		3,974	2,481	4,195		10,650
Approximate Collection Rate		65%	65%	65%		
Total		2,583	1,613	2,727		6,923
Total Annual Interest				6,923	* 12 months =	83,076
Reduced for Interest Collected ²						0
Total Additional Estimated Interest						83,076
Approximate Collection Rate		20%	20%	20%		
Total		795	496	839		2,130
Total Annual Interest				2,130	* 12 months =	25,560
Reduced for Interest Collected						0
Total Additional Estimated Interest						25,560
Fire Department						
Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
Fire (includes gov.)	14,645	2,944	1,398	21,594	(in 91-120)	40,581
Less amount over 120 days in 91-120 days ¹				(21,594)		
Total Fire A/R	14,645	2,944	1,398	0		
Assuming 12% interest		44	34	0		78
Approximate Collection Rate		65%	65%	65%		
Total		28	22	0		50
Total Annual Interest				50	* 12 months =	600
Reduced for Interest Collected						0
Total Additional Estimated Interest						600
Approximate Collection Rate		20%	20%	20%		
Total		9	7	0		16
Total Annual Interest				16	* 12 months =	192
Reduced for Interest Collected						0
Total Additional Estimated Interest						192
Parks and Recreation Department						
Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
Parks & Rec	4,528	1,520	5,857	201	110,424	122,530
Assuming 12% interest		22	144	7		174
Approximate Collection Rate		65%	65%	65%		
Total		15	94	5		114
Total Annual Interest				114	* 12 months =	1,368
Reduced for Interest Collected						(1,100)
Total Additional Estimated Interest						268
Approximate Collection Rate		20%	20%	20%		
Total		4	29	1		34
Total Annual Interest				34	* 12 months =	408
Reduced for Interest Collected						(1,100)
Total Additional Estimated Interest						0

² Although Solid Waste reported that they charge interest, they were unable to provide the total amount of interest collected in 1994.

Estimated Potential Interest On Non-Governmental Accounts Receivable

Estimated Potential Interest On Non-Governmental Accounts Receivable

Police Department						
Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
Police-Commercial Accounts	2,432	1,629	0	0	20,803	24,864
Police-Records & Evidence	0	540	20	336	4,554	5,450
Total Police Department A/Rs	2,432	2,169	20	336	25,357	30,314
Assuming 12% interest		32	0	12		44
Approximate Collection Rate		65%	65%	65%		
Total		21	0	8		29
Total Annual Interest				29	* 12 months =	348
Reduced for Interest Collected						0
Total Additional Estimated Interest						348
Approximate Collection Rate		20%	20%	20%		
Total		6	0	2		8
Total Annual Interest				8	* 12 months =	96
Reduced for Interest Collected						0
Total Additional Estimated Interest						96
Seattle Center						
Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
Seattle Center	73,268	21,899	618	122,341	(in 91-120)	218,126
Less amount over 120 days in 91-120 days ¹				(122,341)		
Total Seattle Center A/R	73,268	21,899	618	0		
Assuming 12% interest		324	15	0		339
Approximate Collection Rate		65%	65%	65%		
Total		211	10	0		221
Total Annual Interest				221	* 12 months =	2,652
Reduced for Interest Collected						(2,812)
Total Additional Estimated Interest						0
Approximate Collection Rate		20%	20%	20%		
Total		65	3	0		68
Total Annual Interest				68	* 12 months =	816
Reduced for Interest Collected						(2,812)
Total Additional Estimated Interest						0

Estimated Potential Interest On Non-Governmental Accounts Receivable

Estimated Potential Interest On Non-Governmental Accounts Receivable

Water Department						
Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
Water-CUBS (Water)	3,468,172	1,405,713	452,829	526,867	(in 91-120)	5,853,581
Water-CUBS (Sewer)	5,245,716	1,295,357	354,302	625,837	(in 91-120)	7,521,212
Water-CUBS (Refuse)	2,380,997	386,939	171,400	218,617	(in 91-120)	3,157,953
Total Water-CUBS	11,094,885	3,088,009	978,531	1,371,321		16,532,746
Commercial & Governmental (47%)	5,214,596	1,451,364	459,910	644,521	(in 91-120)	7,770,391
Assuming 8% interest³		14,315	7,560			21,875
Approximate Collection Rate		65%	65%			
Total		9,305	4,914			14,219
Total Annual Interest				14,219	* 12 months =	170,628
Reduced for Interest Collected						0
Total Additional Estimated Interest						170,628
Individual (53%)	5,880,289	1,636,645	518,621	726,800	(in 91-120)	8,762,355
Assuming 8% interest³		16,142	8,525			24,668
Approximate Collection Rate		20%	20%			
Total		2,863	1,512			4,375
Total Annual Interest				4,375	* 12 months =	52,500
Reduced for Interest Collected						0
Total Additional Estimated Interest						52,500
Department/Type of Receivables	Current	31-60	61-90	91-120	Over 120	Total
Water-Sundry Receivable (incl. gov.)	50,450	25,660	28,554	10,494	168,603	283,761
Assuming 12% interest		380	704	362		1,446
Approximate Collection Rate		65%	65%	65%		
Total		247	458	235		940
Total Annual Interest				940	* 12 months =	11,280
Reduced for Interest Collected						0
Total Additional Estimated Interest						11,280
Approximate Collection Rate		20%	20%	20%		
Total		76	141	72		289
Total Annual Interest				289	* 12 months =	3,468
Reduced for Interest Collected						0
Total Additional Estimated Interest						3,468

Water Summary		
	High Estimate	Low Estimate
Commercial & Governmental	170,628	170,628
Individuals	52,500	52,500
Sundry Sales	11,280	3,468
Total Additional Estimated Interest	234,408	226,596

³ We used an interest rate of 12 percent per RCW 19.52.020 except for the Water Department's Combined Utility Billing System (CUBS) receivables. CUBS accounts are constrained to an 8 percent ceiling because RCW 36.6.200 only allows this rate to be charged on drainage and wastewater fees.

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Office of City Auditor's Audit Recommendations

Recommendation #1

We recommend that departments' generate appropriate management reports which will allow managers to analyze collection patterns. These reports should include aging schedules, collection rate reports, and accounts receivable turnover ratios both for overall accounts receivable and by type of accounts receivable (for example, rental of facilities) and by the type of customer (for example, private individual, or governmental). In addition, departments should consider other ways to determine their effectiveness such as comparing their collection rate with industry standards for specific functions. The City should determine if there is an accounts receivable package that the City should purchase for all departments to use. Departments should be able to customize a system to some extent and it should also be able to generate the appropriate management reports at the department level and also at a City-wide level.

Recommendation #2

The Executive management should aggregate departmental accounts receivable information to evaluate the City's overall effectiveness in collecting its accounts receivable.

Recommendation #3

If it is the Mayor and City Council's intent to provide greater incentive for timely payments, the City should provide departments with authority to charge interest or allow a flat late fee on all past-due accounts, including governmental accounts. We recommend that the Mayor and City Council provide City managers with policy direction and clarify when to charge late penalties for accounts receivable, including when to charge interest on governmental accounts, grants, and low income and "working poor" accounts, and when to use non-monetary penalties, such as the denial of services. The Departments of Law and Finance, working with City Departments, should determine what the interest rate(s) should be. The interest and/or late fees need to be large enough to encourage timely payments and to make the system equitable for those who pay on time but should not be so high that they may be considered usurious.

Office of City Auditor's Audit Recommendations

Recommendation #4

For departments that do not have accounting systems to calculate late penalties, we recommend that the department weigh the cost of changing their systems and determine whether the benefit of changing their systems or processes would be worth the cost. Some departments have reported that they have completed their review and are currently implementing accounting systems with the capacity to assess late penalties (interest and/or late charges).

Recommendation #5

We recommend that departments generate the appropriate management reports, including aging schedules and schedules of interest charged and collected. They should also measure the benefits of charging interest over time, in the form of more timely payment experience.

Recommendation #6

The Departments of Finance and Law should periodically provide detailed management reports on delinquent accounts (over 90 days) to help managers effectively monitor the success of their collection efforts. This report, at a minimum, should include the date referred, the debtor's name, the current balance due, and the status of the account (for example, notice sent to debtor, attorney review, law suit filed, sent to collection agency). In addition, the Departments of Finance and Law should provide departments with a copy of this report. The Department of Law has recently resumed providing departments with quarterly reports on accounts referred to it for collection. Department of Finance officials stated that they are in the process of developing four monitoring reports to provide to departments, and plan to pilot these reports at the end of the second quarter of 1995.

Recommendation #7

The Departments of Finance and Law should review their process for recording and monitoring collection transactions to ensure the future accuracy of the database. The Departments of Finance and Law should take the appropriate steps to correct their database as long as the costs of corrective actions do not outweigh the benefits.

Office of City Auditor's Audit Recommendations

Recommendation #8

The Executive should determine whether it would be more cost effective for the City to establish a minimum threshold amount for pursuing collection activities, and the City should present its findings to the Mayor and City Council of what the minimum threshold amount should be.

Recommendation #9

We also recommend that some City Departments, as shown in Addendum D, should improve their collection process. These improvements would include sending overdue notices, referring accounts to the Departments of Law and Finance, monitoring collection patterns, reconciling accounts with the Departments of Law and Finance, and determining an appropriate allowance for uncollectible accounts receivable. These specific recommendations pertain to areas within individual departments/divisions but are not a complete list of recommendations for all departments. Specifically, we recommend the following:

- As stated in the City's accounts receivable policies and procedures, departments should at minimum send overdue notices at 30 and 60 days. (We recognize that the accounts receivable policies are guidelines and that in some cases, because of the differences in departments' receivables, the accounts receivable policies may not apply.)
- Unless the department has received a specific waiver from the Department of Finance, the department should refer its delinquent accounts to the Department of Law (amounts greater than \$2,500) and the Department of Finance no later than 90 days after the original due date.
- Departments should reconcile the accounts that they refer to the Departments of Finance and Law on a periodic basis to improve the City's tracking and monitoring of delinquent accounts receivable and to ensure that the Departments of Finance and Law have received the accounts and are pursuing more serious collection efforts (such as legal action and the use of their collection agency.)

Office of City Auditor's Audit Recommendations

Recommendation #10

City departments should ensure that they have proper segregation of duties so the same person who receives payments does not enter the payments into the accounting or subsidiary accounting systems. As a result of our audit, the Departments of Finance and Law and several other departments have reported that they have properly segregated duties or put in place other compensating controls.

We recognize that departments may have inappropriate staffing to segregate duties optimally between receivables and payment processing and may have to implement alternative controls. Such controls may include having one person logging in all checks before the checks are given to another person who prepares and processes the accounting entries. The deposit slip is then given back to the first person who compares the deposited amount to the log.

Recommendation #11

The Departments of Finance should develop appropriate controls over the accounts referred to the collection agency. Specifically, these controls should include a process, whereby the Department of Finance periodically reconciles the accounts it refers to the collection agency to ensure that the collection agency received the accounts and is actively pursuing collection.

Recommendation #12

The Department of Finance and City Light should follow the contracting rules and amend their contract with the collection agency to reflect actual practices. We also recommend that the City (both the Department of Finance and City Light) reconsider the decision not to collect interest from the collection agencies. The Department of Finance agrees that the City should receive interest and will require its new collection agency to remit interest along with payment collection to the Department of Finance as stated in the requirements of their recent request-for-proposal. In addition, the Department of Finance should stop using its checking account to pay the collection agency's commission and use the City's Accounts Payable Purchase Order system. Department of Finance Officials stated that they plan to make this change by July 1, 1995.

Office of City Auditor's Audit Recommendations

Recommendation #13

Finally, the City needs to improve its system of controls over NSF checks to ensure that it is effectively managing the outstanding NSF checks. The Department of Finance is starting a departmental project looking at its cash management system, including its recording of NSF checks. During this review, the City should consider streamlining this process.

Recommendation #14

The Department of Finance should review and re-issue all written policies related to accounts receivable to ensure that they are consistent, clear, and complete. These policies include the City's miscellaneous revenue policy and policies for write-off of bad debt, allowances for doubtful accounts, and NSF checks.

Recommendation #15

The Executive should determine if it is the Department of Finance's or another department's role to monitor departments compliance with the City's policies for collection of accounts receivable. Executive management should establish a system that provides for reasonable monitoring of departments compliance with established policies and procedures.

Office of City Auditor's Audit Recommendations

Table 3: Specific Recommendations for Departments.

Department	Send over-due notices in a timely manner.	Refer accounts to the Departments of Law and Finance in a timely manner.	Develop the necessary management reports to monitor collection patterns.	Reconcile accounts with Departments of Law and Finance.	Properly segregate duties so the same person who receives payments does not enter the payments into the accounting system.	Establish a reasonable allowance for uncollectible accounts receivable.
Department of Administrative Services	X	X	X	X	X	X
City Light			X	X		
Department of Construction and Land Use	X ¹	X		X	X	
Engineering Department						
Engineering Services						
Transportation		X		X		
Drainage and Wastewater				X		X
Solid Waste		X		X		
Fire Department	X	X	X		X	
Department Housing and Human Services	X		X			
Library		X ²				
Municipal Courts			X			
Department of Neighborhoods	X		X			
Parks Department			X	X	X	X
Personnel Department						
Police Department						
Fiscal	X		X	X		
Records and Evidence			X	X	X	
Seattle Center			X	X	X	
Water Department				X		
Finance Department	X ³	X ³	X	X ⁴	X	
Law Department					X	

¹ The Department of Construction and Land Use should send over due notices for its abatement accounts in a timely manner.

² The Library should refer its delinquent NSF checks to the Department of Finance.

³ The Department of Finance should ensure all departments are sending timely notices and referring accounts to the Departments of Law and Finance or have received waivers for alternative procedures.

⁴ The Departments of Finance should periodically reconcile its accounts with the records of the collection agency.

Executive Departments' Response to Our Audit Report

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Internal Controls

Definition

Chapter 6, paragraph 51, of the Government Auditing Standards defines internal controls as “the plan of organization and methods and procedures adopted by management to ensure that its goals and objectives are met; that resources are used consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.”

Management’s Responsibility For Establishing Internal Controls

Establishing and maintaining an internal control structure is an important management responsibility. To provide reasonable assurance that an entity’s objectives will be achieved, the internal control structure should be under ongoing supervision by management to determine that it is operating as intended and that it is modified as appropriate for changes in conditions.

--American Institute of Certified Public Accountants

Officials entrusted with the resources are responsible for establishing and maintaining effective control.

--Government Auditing Standards

Objectives and Inherent Limitations of an Internal Control System

The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management’s authorization and are recorded properly to permit the preparation of financial statements in accordance with general accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Internal Controls

**Standard Internal Controls for
Cash Transactions**

Practices that indicate good internal control over cash include separation of duties between handling cash, record keeping, and authorization; prompt deposits of cash received; adequate safeguarding of cash; signatures for monies disbursed; periodic reconciliation of cash accounting records by a custodian's supervisor or an independent party; and proper authorization and control of disbursements.